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Before the  
Federal Communications Commission  
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

**COMMENTS OF THE IOWA TELECOMMUNICATIONS ASSOCIATION**

These comments are filed responsive to the Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking in the above-captioned dockets released February 9, 2011 (hereafter “the NPRM.”).

The Iowa Telecommunications Association (ITA) is the nation’s largest member state telephone association with 143 active telecommunication providers.<sup>1</sup> The ITA has concurred in

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<sup>1</sup> ITA represents all incumbent local exchange carriers (“ILECs”) in Iowa except for Windstream and about seven small independents. Together these rural providers serve approximately 225,000 rural Iowans. ITA also represents three competitive local exchange carriers (“CLECs”) and one Centralized Equal Access Provider. ITA members Frontier Communications and CenturyLink do not participate in these comments and may file their own comments in this matter.

and supports the comments filed by the Rural Associations.<sup>2</sup> These comments are intended to supplement that information with information more specifically related to the State of Iowa.

ITA members believe that all Iowans should have access to broadband communications, and Iowa consumers would be served well by the National Broadband Plan's (NBP or "Plan") stated goal of ubiquitous and robust broadband service to all. The goal of moving toward broadband-focused high cost funding mechanisms can benefit Iowa consumers if structured properly. Unfortunately, the National Broadband Plan, if implemented through the proposals of the instant NPRM, will fail to accomplish this goal.

## **I. Introduction**

*"Those who don't know history are destined to repeat it." -- Edmund Burke.*

The telecommunications industry in Iowa has evolved to its current state through an extensive history. Iowa has a large number of locally owned and operated rural carriers who have a strong history of providing high quality service to customers in the less densely populated and higher cost rural areas of the state. They also have the knowledge and experience to provide rural broadband access, and we urge the Commission to avoid taking steps that will prevent them from continuing to expand their broadband capabilities and footprint.

Congress has consistently declared ubiquitous communications to be a high national priority. Through the REA programs and USF, the high cost areas of rural Iowa have been considered worthy of economic support for many decades. Still, the larger companies have

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<sup>2</sup> Comments filed by the National Exchange Carrier Association, National Telecommunications Cooperative Association, Organization for Protection and Advancement of Small Telephone Companies, Western Telecommunications Alliance, Eastern Rural Telecom Association, and Rural Broadband Alliance (the "Rural Associations") in this docket on April 18, 2011.

never shown a willingness to serve customers who reside in what have been considered non-economic exchanges.

ITA's members believe that the current NPRM erroneously assumes that something significant has changed in Iowa, and that if the policies suggested by the NPRM cause some smaller carriers fail or be forced to consolidate, the larger carriers will come in, serve these customers, and satisfy the public interest.

In fact, ITA asks the Commission to consider a number of questions of vital importance as the Commission crafts a future vision of ubiquitous broadband in states like Iowa.

Has the population density of rural exchanges in Iowa increased materially? Or has rural density actually decreased? Have costs to serve rural areas declined appreciably so as to make them economically attractive to major carriers that have refused to serve rural Iowa for decades? Are the major carriers making efforts to serve rural Iowa today? Or have those who had some rural areas sought to divest them? Have the underlying Congressional mandates changed? Do we still want to maintain quality, up-to-date communication services in rural Iowa? Are voice and broadband communications still necessary in rural areas? Aren't they more so?

## **II. Congress Has Not Changed the Underlying Policies of Universal Service Nor Has it Asked the Commission to Harm Consumers Served by RLECs**

The Commission recognizes the underlying principle against which all actions taken in this rulemaking must be measured and judged: "the principle that all Americans should have access to communication services, a concept referred to as universal service, has been at the core of the Commission's mandates since its founding". (Para. 2)

The Commission is well aware that section 254(b) of the Act sets forth principles that it must follow in creating policies to preserve and advance universal service including that:

- services “be available at just, reasonable, and affordable rates.” Section 254(b)(1);
- “consumers in all regions of the nation, including low income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, that are reasonable comparable to those services provided in urban areas’ and ‘at rates that are reasonably comparable to rates charged for similar services in urban areas.” Section 254(b)(3); and
- ”federal and state mechanisms ‘should be specific, predictable and sufficient . . . to preserve and advance universal service.”

In addition, when enacting the American Recovery and Reinvestment Act of 2009, Congress “tasked the Commission with developing a national broadband plan ‘to insure that all people in the United States have access to broadband capability,’ and a ‘strategy for achieving affordability of such service and maximum utilization of broadband infrastructure.’”

While the concept of universal access to service including broadband service is paramount, it is also clear that there are areas in which service and particularly broadband service is not economically viable, and in these areas, public support is needed to spur private investment. (Para. 1) The Commission has also stated “our reforms must balance a number of other important and possibly competing priorities. These priorities include advancing broadband service to all Americans; sustaining high quality, reliable voice service for all Americans; sustaining and expanding mobile voice and mobile broadband coverage throughout the country; increasing adoption of advance communication services; and minimizing the burden on consumers and businesses that pay for universal service.” (Para. 16)

Those priorities were expanded when the Commission outlined “four specific priorities for the federal universal service high cost program. First, the program must preserve and advance voice service. . . Second, we seek to insure universal deployment of modern networks capable of supporting necessary broadband applications, as well as voice service. . . Third, the program must insure that rates for broadband service are reasonably comparable in all regions of

the nation and rates for voice service are reasonably comparable in all regions of the nation. . . Further, we seek to limit the contribution burden on households. . .” (Para. 80)

In carrying out those priorities, the Commission stated expressly “to be clear, we are not proposing to eliminate universal service support for communications services in high cost areas of the country; rather, we are proposing to improve efficiency and effectiveness of that support”. (Para. 15) “To reduce uncertainty and help companies reliant on USF and ICC plan and invest for the future, we also propose several options for long term CAF funding mechanisms, as described below.” (Para. 29)

The ITA fully supports the guiding principles and underlying policies stated above. As is so often said, though, “the devil is in the details.”

Data NECA recently supplied to the Commission confirms that the “details” of the NPRM could be fatal to many Iowa companies, highly detrimental to rural consumers, seriously threatening the objectives Congress has established for broadband deployment. On April 11, 2011 NECA provided the Commission data showing the impact of the ICC and USF reforms proposed in the NPRM on local rates. For Iowa consumers, the impact of moving Intrastate Access to Interstate Access rates (assuming all lost revenue is passed on to consumers) would be to raise current local rates \$5.02 per month. If all charges are transitioned to Reciprocal Compensation, the impact on rural Iowa customer local rates is an increase in monthly rates of \$15.74 and if all access moves to Bill and Keep the impact is an additional \$20.54 per line.

The NECA data also analyzes the impact of high-cost USF reform. Combining the impact of the proposed changes to access with elimination of the high-cost elements of corporate operations and the expense adjustment, local rates for Iowans will increase \$11.69 if Intrastate Access rates move to Interstate Rates. If access moves to Reciprocal Compensation then the combined impact is an additional \$22.41, and if access moves to Bill and Keep, the combined

impact is a \$27.21 increase. Furthermore, continuing decreases in line counts will continue to exacerbate what would be unacceptably large local rate increases.

ITA members question whether Congress intended that its directive to the Commission to develop a plan for ubiquitous broadband would so severely impact rural customers.

### **III. Consolidation and Efficiencies**

More than most any other state, the geography of Iowa is characterized by a large number of small communities evenly dispersed across its land area. Iowa has approximately 1009 towns and cities and a population of just over 3,000,000. Therefore, the “average” population is less than 3,000 per community.

Largely because of the state’s geographic makeup, Iowans are resourceful. Farmers and their neighbors formed companies to serve their communities when the existing companies chose not to serve. Iowa’s independent companies began when large phone companies weren’t interested in building out to rural communities and serving the lesser populated rural areas.<sup>3</sup>

In 1963 there were over 700 small independent telephone companies. In the decades since, existing market forces have led to telecom industry consolidation. Iowa now has fewer than 150 independent providers now with consolidation occurring and continuing to occur as Iowa companies face increasing competition for voice and broadband services from cable and wireless operators and continue to drive consolidation and efficiencies.

The ITA members serving in Iowa today are critical to the survival and success of rural communities in Iowa and to the farmers and agribusinesses in these communities that are feeding the world. ITA companies have successfully deployed first generation broadband in much of

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<sup>3</sup> The history of Iowa companies has been compiled in a book, “Lines Between Two Rivers - A History of Telephony in Iowa,” 1991, Library of Congress, Catalog Card No. 91-73794.

rural Iowa through a combination of private investment and federal support mechanisms. They have created local jobs, focused on local service and invested in infrastructure and advanced services and maintained the network to support Internet, wireless, content and VoIP providers that use the network every day to reach rural consumers allowing them to fully participate in the digital economy.

In paragraph 217 of the NPRM, the FCC expresses concerns that the “current universal service rules may have the unintended consequence of discouraging beneficial consolidation of small carriers” and that “it may not serve the public interest for consumers across the country to subsidize the cost of operations for so many small companies, when those companies could realize cost savings through implementation of efficiencies of scale in corporate operations.” While scope and scale are recognized principles of economics, the FCC concerns evidence an assumption that somehow the geographic and demographic features of states like Iowa (large number of small, low density communities, long loop lines) no longer matter. High cost areas are caused by factors of density and distance. Consolidation does not reduce the impact of those factors.

Indeed, the local nature of Iowa’s independent providers has served rural consumers well. Larger carriers, at least in the state of Iowa have not been as successful at deploying broadband as the smaller companies and especially in the rural portions of their exchanges. The small companies are small businesses being run efficiently by business people who live and work in the communities they serve. The services of Iowa Network Services demonstrate some significant of the efficiencies that Iowa companies have adopted. In addition, the quality of service of the independent providers has consistently ranked at the top of the industry. Forced consolidation simply is bad public policy.

#### **IV. Centralized Equal Access (CEA) and Statewide Efficiencies**

A unique feature of the Iowa landscape is the benefits and efficiencies created by Iowa Network Services (INS) and its Centralized Equal Access (CEA) network<sup>4</sup> to allow Interexchange Carriers (IXCs) to efficiently connect with even the smallest rural LECs.

As part of the CEA network in Iowa 142 LECs connect to redundant high capacity fiber rings, over 2,000 miles of buried fiber optic cable, redundant tandem switches, and an SS7 system. Currently 43 interexchange entities connect to the INS rings across Iowa. The LECs end user customers choose their toll completion carrier. The LECs and INS route the calls to the appropriate IXC and calls from the IXC to the appropriate LEC. If this CEA system was not in place, many of these 43 interexchange carriers would find it too expensive to expand their systems to provide services across the state. These carriers today do not have to incur the cost of building out duplicative extensive networks but rather pay for their usage of the INS system based on their end user customer's usage through CEA per minute charges.

In addition, Iowa's CEA network provides a number of other services and benefits that further efficiencies and help RLECs manage costs. For example, 139 companies utilize INS services for compliance with the Communications Assistance for Law Enforcement Act (CALEA). Over 106 law enforcement agencies have interacted with INS facilities. Over 71,000 end user customers of LECS & CLECS enjoy Internet services provided through these facilities. 34 companies also enjoy Digital Television because of this operative high capacity fiber system.

INS, as a CEA provider, only has IXC entities as customers. It has no end user customers. Per minute access charge elimination would require the development of an

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<sup>4</sup> The only other similar systems in the US are deployed in Minnesota (Onvoy Inc., f/k/a Minnesota Equal Access Corporation), and South Dakota (South Dakota Network, LLC).

alternative methodology for INS to bill for its services. Other carriers similarly located in a call path would have similar issues. ITA suggests the Commission be mindful of the impact of its decisions on CEA providers and consider a special exemption for this uniquely efficient network.

## **V. Iowa Companies Cannot Withstand Significant Revenue Reductions without Adverse Customer Impact**

Congress mandated that “There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.” 47 USC § 254(b). ITA members are concerned that the dismantling of two significant sources of sustainable and predictable revenues (high cost funding and intercarrier compensation) coupled with the uncertainty of funding from the proposed CAF fund violate 254(b) and threaten the ability of rural consumers to participate in the intended benefits of the National Broadband Plan.

Several factors already threaten the viability of rural telecommunications networks, and the voice services, special access services, backhaul and broadband connectivity for consumers and businesses of rural carriers and wireless providers in Iowa.

First, the IUB’s 2009 ruling<sup>5</sup> that reduced intrastate access rates in the ITA Access Tariff #1 differs from other states because it simply lowered a tariffed access rate and shifted most of the revenue losses directly to consumers, urging the concurring LECs to simply raise local rates. Since then, several dozen local exchange carriers did raise their local rates.<sup>6</sup>

Second, as summarized in Section II, revenue loss from the proposed ICC and high cost USF reforms would further exacerbate the recent financial burdens placed on rural Iowa customers.

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<sup>5</sup> In re: Iowa Telecommunications Association, IUB Docket Nos. TF-07-125 and TF-07-139.

<sup>6</sup> See Section IV for more discussion of the ITA Access Tariff.

Third, many RLECs are not receiving an adequate rate of return to allow them to maintain and expand their services. For example, the ITA prepared a study entitled “*Intrastate Costs of Common Line Service in Rural Iowa for the Iowa Telecommunications Association*,” authored by Stephen Quinnan, Director of Average Schedules for the National Exchange Carrier Association. The study was delivered to the Iowa Utilities Board on January 4, 2010 as part of the aborted In re: State Universal Fund docket.<sup>7</sup> It gathered data from 141 LECs documenting the costs of providing common line intrastate access service by rural ILECs who participate in the ITA Intrastate Access Tariff.

This NECA-ITA Study showed that the Intrastate Common Line component of access charges alone far exceeded the amount the IUB has authorized for intrastate access under the ITA Tariff #1. The Study showed the Intrastate Common Line cost averaged \$16.81 per line customer per month, or \$0.1205 per minute of intrastate access, while the total intrastate access charge was reduced to around \$0.06 per minute. The study concluded “that substantial costs for intrastate common line service are unfunded, placing the maintenance and modernization of the local network at risk.”

Other data confirms the financial strain on the Iowa RLECs and completely puts to rest any insinuation that most regulated carriers in Iowa have excess earnings.<sup>8</sup> In response to such claims by IXC and others, Kiesling Associates, LLP<sup>9</sup> conducted a rate of return study of 111 of its clients in Iowa. The Kiesling study<sup>10</sup> showed in 2008, the average rate of return on regulated interstate and intrastate operations for those 111 companies was 3.48%. A staggering 31% of

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<sup>7</sup> See Section IV.

<sup>8</sup> Para. 597 of the NPRM states that “In addition, absent sufficient oversight, the accounting requirements needed to implement rate-of-return regulation can enable excessive earning by a regulated carrier.

<sup>9</sup> Kiesling is an accounting firm representing the vast majority of Iowa small telephone companies. Their sample in this report was of 111 Iowa companies.

<sup>10</sup> The Kiesling Study that used 2008 data was provided to the IUB in August 2009, and is available at [http://www.i-t-a.net/iub\\_and\\_fcc/Gerot\\_IUB\\_Meeting.pdf](http://www.i-t-a.net/iub_and_fcc/Gerot_IUB_Meeting.pdf). An updated report with newer data will be supplied when it is completed.

the companies in the study showed a negative rate of return on combined interstate and intrastate regulated operations. 80% of the Iowa rural LECs in the study showed an overall rate of return for interstate and intrastate regulated operations of less than the 11.25% rate of return which the FCC authorizes for interstate regulated operations.

Last year, Kiesling updated its study to include 2009 data, which showed the overall average rate of return on regulated operations had dropped to 1.57% with over 85% of the companies earning below 11.25% overall, and 41% suffering a negative return.

Finally and to rebut misperceptions that RLECs might be over-earning on non-regulated operations, the updated data from Kiesling shows that even including interstate and intrastate regulated and non-regulated operations, the average consolidated rate of return for those 111 companies in 2009 was 3.19%.

The data submitted by NECA to the Commission last week supports these figures<sup>11</sup> and demonstrates that RLEC's in Iowa are already under-earning and revenues are in further decline. The clear and convincing data shows that most Iowa RLECs will not be able to withstand the significant revenue reductions contemplated by the NPRM. Simply put, rural independent carriers in Iowa may not be able to continue to serve customers if other revenue streams are further reduced. We already know, historically, that this will result in loss of service because the rural independents were formed when the Bell system would not provide service to remote, low population areas in Iowa.

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<sup>11</sup> NECA's data shows that for 101 respondents in Iowa, 86% of the study areas earned less than 11.25% "Baseline Total Company Earnings"; while 73% earned less than 8.0% and 31% of the study areas earned less than 0%.

## **VI. Fiber is Efficient Capital Investment**

Despite the challenges mentioned above, rural independent carriers are justifiably proud of the progress made in delivering first generation high-quality broadband service to local communities. But it appears that policymakers have the misperception that having achieved these accomplishments, the work is done and there need be no further attention or support delivered to these areas. This conclusion ignores the fundamental financial data in the previous section and also punishes the customers of telecommunications providers solely because their providers have already upgraded their networks.

Iowa companies that have deployed broadband will need to maintain the existing service in high-cost areas, and continue to upgrade their services both to avoid obsolescence and to meet present and future demand. Central to these continuing costs is the rural customer's ever-increasing demand for more bandwidth, and these demands are just beginning. Examples of the importance of modern broadband access in rural areas are many, and we have attached a series of Iowa-specific examples as Attachment A. The Commission must agree that rural Iowans should have access to the services and benefits that their urban counterparts will enjoy. Legislators and policymakers certainly do.<sup>12</sup>

To meet this need, many ITA members have invested substantial sums to upgrade their networks. In fact, 50 Iowa LECs have deployed FTTH in 142 communities. Contrary to assertions of "overspending" "gold plating" or examples of "racing to the top," the fact that numerous ITA members have deployed fiber networks is more of a reflection of their efficient long term planning and meeting the needs of their consumers.

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<sup>12</sup> See Section VII.

A recent study by Vantage Point Solutions<sup>13</sup> looked at long term capital expenditures for deploying a wireless LTE broadband network versus a wireline FTTP network in a rural town with 952 subscribers. The VPS study showed that a wireline FTTP system cost 38% more than the cost to deploy a wireless LTE network over a 30 year period. However, the wireline FTTP network had substantially more bandwidth capability -- the FTTP network offered 70 Mbps per customer while the LTE system offered just 0.047Mbps per customer. For that hypothetical community of 952 subscribers, the cost per megabyte of service of the LTE system would be \$95,556 per Meg while the FTTP system cost just \$103 per Meg.

For further comparison, the VPS study explored the 30 year CapEx for upgrades necessary to allow the wireless LTE system to deliver 4 Mbps to all subscribers. The FTTP network in the example cost \$6.9 million to deliver 70 Mbps per customer. By contrast it would cost \$52.4 million to upgrade the wireless LTE network to guarantee a steady stream of access to 4 Mbps.

The Vantage Point study shows the public interest would be much better served in the long run if limited USF monies were directed toward fiber networks. To the extent that Iowa companies have had to upgrade their networks over the past several years, fiber was the prudent choice.

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<sup>13</sup> “Wireline vs. Wireless – Winners and Losers,” presentation by Larry Thompson, CEO of Vantage Point at the 2010 ITA Rural Telecom Forum, June 7, 2010, pages 46-51. [http://www.i-t-a.net/iub\\_and\\_fcc/Vantage\\_Point\\_wireless\\_wireline.pdf](http://www.i-t-a.net/iub_and_fcc/Vantage_Point_wireless_wireline.pdf)

## **VII. Iowa Legislature Joins other States in Urging the FCC to Consider Rural Needs**

On January 27, 2010, the Iowa House of Representatives approved House Resolution 6 by a unanimously vote of 100-0.<sup>14</sup> HR 6 sends a strong message that the Iowa Legislature is concerned that the National Broadband Plan (and by implication, the proposals in this NPRM to implement the NBP) will have a negative impact on customers in rural Iowa and run “counter to the federal universal service policy which ensures access to communications services at comparable rates regardless of a consumer’s location.” The Iowa House of Representatives challenged the Commission “to make substantive changes to the National Broadband Plan so that the plan does not limit the future economic livelihood and social wellbeing of rural consumers,” and pointed out the need to ensure quality broadband service availability throughout this state “to realize the true benefits of access to robust broadband speeds.”

Iowa policymakers are not alone, as Legislatures in North Dakota, South Dakota and Kansas have approved similar resolutions.

In addition, the North Dakota PUC submitted comments asking the FCC to “reject USF and intercarrier compensation reforms that will lead to decreased service quality, reduced network availability or rates that are not viable in rural America.”

The Utah Public Service Commission and Utah Division of Public Utilities summed up the comments of rural states in the concise comments it filed on Friday, warning the Commission: “*The proposed rulemaking will also, at least temporarily, result in providing worse broadband and voice service for Utah’s rural customers, who face the threat of existing providers losing the financial ability to provide reliable service going forward. If this is the*

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<sup>14</sup> <http://coolice.legis.state.ia.us/Cool-ICE/default.asp?Category=billinfo&Service=Billbook&menu=false&hbill=hr6>

*Commission's intent, the proposed rulemaking is an effective tool at achieving that intent.*

*Otherwise, dramatic changes are needed.”*

ITA requests the Commission consider the strong messages sent by these states most impacted by the proposals in the NPRM and instead adopt the proposals contained in the Rural Associations' comments also filed today.

## **VII. ITA Access Tariff**

In connection with its discussion of “access reforms” taken by the states, the Commission makes specific reference to actions in Iowa in Paragraph 543: “further, in Iowa, intrastate access rates for local exchange companies were reduced in the context of a tariff proceeding. Notably, no recovery mechanism was established in the proceeding because affected LECs did not provide cost data to substantiate the need for recovery. We seek comment on the status of intrastate access reform, as well as different approaches and best practices of states that have undertaken intrastate access reform.”

ITA is compelled to provide background and context to developments in Iowa so we can correct any misperceptions in the record.

As will be explained below, there has not been “access reform” in Iowa, but instead the state's access environment, is merely adrift in uncertainty with no rules, regulations or procedures established for the proper determination and recovery of intrastate access charges.

First, the IUB has made statements that ITA failed to provide data, though that data did not yet exist. Then, the IUB failed to give ITA guidance on how to present cost data once we announced our intention to gather the data. Finally, once ITA gathered the data and submitted a report to the IUB, the IUB ignored it and closed the docket. In sum, the proceedings in Iowa

were neither reasonable nor legal and in no way provide a best practice for other states or the FCC to follow.

In 2007, Sprint and other carriers challenged a proposed modification to the ITA Intrastate Access Tariff #1. The IUB opened a complaint docket to investigate ITA's Tariff. Since the inception of the access charge regime in 1984, the IUB has permitted the ITA to submit an access tariff which mirrored the NECA tariff and rates. IUB rules recognized the value of not forcing 150+ companies to file and support their own access tariffs via detailed cost studies, and instead allowed them to concur in the ITA tariff.<sup>15</sup>

Individual Iowa rural LECs separately choose whether to concur on the ITA tariff by filing a concurrence in their own local exchange tariff, and most have done so. ITA is not informed nor does it keep track of who has filed concurrences with the ITA tariff before the IUB. ITA has no authority to act on behalf of any Iowa LEC and does not gather any information about any Iowa LEC when developing the ITA Tariff.

It should be noted that there is a fundamental difference between the function of ITA and NECA. When the access regime was first being considered in 1984, there was consideration of a NECA type process in Iowa utilizing Iowa costs. However, for purposes of economy and efficiency, it was determined that a mirroring mechanism would be appropriate under the assumption that Iowa costs for intrastate access would be no less than average national interstate access costs. NECA specifically identifies participating companies who are listed in the NECA tariff and those companies provide cost information to NECA for it to perform its services in determining national average costs and establishing the interstate access rates.

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<sup>15</sup> According to Board rule 22.14(2)(b)(1): "a non-rate regulated local exchange utility may voluntarily elect to join another nonrated regulated local exchange utility or utilities in forming an association of local exchange utilities. The association may file intrastate access tariffs. Utility in its general tariff can concur in the Association tariff."

By contrast, the ITA Access Tariff #1 merely provides a vehicle or conduit for the use of the NECA tariff and rates as a surrogate for costs and rates of Iowa LECs. ITA does not have any participating members and it does not gather cost information. For years, ITA merely filed and maintained ITA Access Tariff #1 mirroring NECA #5 as applicable with a few exceptions.

For many years, the ITA tariff imposed intrastate access rates that mirrored interstate rates. ITA Tariff #1 premised its rates not on Iowa specific costs but rather on the average national cost established through NECA's interstate access charge development process. In fact, until ITA contracted with NECA to perform an Intrastate Common Line Cost Study for RLECs in Iowa in 2009, there existed no data aggregating specific costs of Iowa RLECs.

In 1997, the rate design for the recovery of access costs was shifted at the federal level to migrate away from a "single basket" recovery of access charges from the carriers and to add two new "baskets of funding" through subscriber line charges (SLCs) and universal service funds (USF).

However, in Iowa, Board Rule 22.14(2)(d)(3) prohibits a state USF and Rule 22.14(2)(d)(2) prohibits a state SLC. Therefore, when the corresponding interstate charges were reduced in 1997 (and shifted to SLCs and USF funding), in Iowa there was no such alternative. Therefore, ITA froze the pre-existing access rate in its tariff, which included a PIC charge and a frozen local switching charge. This meant for more than a decade, Iowa has continued to recover both traffic sensitive and nontraffic sensitive access costs exclusively through the access charges in the ITA Access Tariff.

The question of whether the PIC charge and the local switching charge should remain frozen became the focus of the IUB's attention in response to the challenges by Sprint and others relating to ITA Access Tariff #1.

In its 2009 ruling the IUB ruled that ITA did not cost-justify these two elements, and it removed the TIC, and lowered the switching charge in ITA's Intrastate Access Tariff #1 to the current NECA rate. The impact was initially to cut intrastate access rates for concurring companies by almost one-third. In so doing, the IUB expressly stated that the affected LECs should look to replace lost revenues by raising local service rates to rural Iowans.

Clearly, when examined in its entirety, the IUB ruling was nothing like "access reform." It was simply a piecemeal approach to a tariff dispute. The IUB merely required that the traffic sensitive costs as reflected in the NECA tariff be recovered in the access charges and made no provision for the recovery of nontraffic sensitive costs which at the federal level are recovered through SLCs and USF. The ITA tariff as it exists, however, was in accord with the existing rules and, if there should be a change to recover only traffic sensitive costs through access charges and to recover the nontraffic sensitive cost through other mechanisms, that would require exploration in a rulemaking docket, as the current rules prohibit SLCs or USF.

After the IUB issued its final ruling, in what has apparently become an ill-advised strategy decision, the ITA elected not to appeal the IUB's ruling, but to attempt to work with the IUB to find common ground to establish a dialogue to determine the expectations of the IUB regarding intrastate access and to collaborate with the IUB to establish policies, procedures and rules governing ITA member recovery of intrastate access all to support a healthy telecommunications network which meets consumer demand for services in Iowa.

The ITA met with the IUB within three weeks of the final ruling to open that dialogue and determine the direction that it would prefer, what kind of cost studies, what rate design, how to deal with high cost areas in the state, how to promote broadband and rural economic development, what the filing requirements might be for access charges and what types of tariffs and cost support should the nonrated-regulated companies employ. The IUB gave no guidance

other than something that amounted to “go get the data and show us what you find.” ITA then contracted with NECA to assemble some of this data, using the methodologies that are vetted with the NECA interstate access Tariff #5.

Meanwhile, in August of 2009 Joe Gerot, a co-managing partner of Kiesling Associates, LLP made a presentation reflecting the rate of return data discussed in Section V showing that many ITA members were not experiencing negative rates of return.<sup>16</sup>

When the NECA Study on “ITA Intrastate Costs of Common Line Service in Rural Iowa” was completed, it was filed as part of the ongoing docket entitled In re: State Universal Service Fund (Docket no. NOI-08-02), on January 4, 2010. As stated earlier, this Study demonstrated that ITA Tariff-concurring companies had intrastate common line costs far in excess of the IUB-authorized tariff rate.<sup>17</sup>

To date, the IUB has issued no formal response to this data or the ITA Intrastate Common Line Cost Study.

From the RLEC perspective, what has occurred in Iowa can be summed up as follows: despite the fact that the IUB had asserted (mistakenly) that ITA had cost study data yet refused to provide it; despite the fact that after the tariff ruling the IUB specifically asked ITA to gather this data; despite the fact that ITA did so and then submitted the ITA Intrastate Common Line Cost Study to the IUB after nearly a year of work; the IUB responded by simply closing the state USF docket.

No further action has been taken to determine how Iowa companies would recover their unrecovered costs realized as a result of the IUB access tariff rate reduction Orders.

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<sup>16</sup> See Kiesling Study referenced in note 10.

<sup>17</sup> See Section V for more discussion of the results of this data

The ITA was not then and is not now resistant to comprehensive discussions of intrastate access reform. But, the IUB's dismissal of ITA costs and the decision to not provide for the proper recovery of nontraffic sensitive costs is not a best practice will not lead to desired network investment and has harmed the ITA members as the updated Kiesling Study demonstrates.

## **VIII. Conclusion**

Iowa has several unique characteristics that have influenced the current telecommunications landscape in our state. The Iowa small companies were formed from the need to assure quality services in the rural areas. Iowa small companies are dedicated to the quality service to rural Iowa and continue to need assistance to cover the high cost of service to offer service and rates comparable to those of urban areas. The large carriers did not and do not intend to provide services to the high cost areas.

Although the small providers in Iowa have built advanced infrastructure serving customers in their exchanges, many of the NPRM proposals would jeopardize the fulfillment of the NBP's goals of ubiquitous broadband at reasonable rates and the Communication Act's directive of comparable services at reasonably comparable rates.

The rural nature of Iowa small company exchanges has not changed appreciably as telecommunications has evolved. The need for support of high cost exchanges to assure that advanced services are available at just, reasonable and affordable rates reasonably comparable to the services and rates in urban areas remains as critical today as when the universal service principles were first established.

The ITA does not resist change in the intercarrier compensation and universal support mechanisms. However, those changes cannot be implemented in such a fashion so as to violate the underlying principles themselves.

Without adequate support for their costs, Iowa's independent companies will not be able to continue their quality of service to rural customers and there will remain no provider willing to serve the high cost customers, resulting in deterioration of service and networks in rural Iowa. Rather than proceeding down a path that punishes those telecommunications providers who have already made investment and discourages others from future investment, ITA urges the FCC to adopt the alternative RLEC proposal submitted by the Rural Associations.

Respectfully submitted this 18<sup>th</sup> day of April, 2011.

IOWA TELECOMMUNICATIONS ASSOCIATION

By: 

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## CERTIFICATE OF SERVICE

I hereby certify that a copy of the Associations' Comments was served this 18<sup>th</sup> day of April, 2011 by electronic filing and e-mail to the persons listed below.

By: /s/ Andrea Haney  
Andrea Haney

The following parties were served:

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Federal Communications Commission  
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## ATTACHMENT A

### Examples of the importance of modern broadband access in rural Iowa

- A business in the exchange served by Marne & Elk Horn that conducts remote monitoring of city buses in Los Angeles, farmers who use high speed service to measure moisture in corn and bean grain bins, Skype and other services which utilize broadband voice and video communication and businesses that have use on-line shopping to conduct commerce across the nation.
- Alpine Communications reports that a child in Elkader is taking vision therapy sessions online to avoid the need to travel more than 100 miles to the eye specialist on a weekly basis.
- EverTek, another rural provider, has a customer in Everly, population 700, who is a home-based engineer actively employed by a German company, using a Cisco VPN system over broadband on a daily basis to download and upload large files, engineering drawings and send communications with fellow employees in Germany and Japan
- A global information services company in Truro is utilizing 10 Mbps service to provide infrastructure and private cloud computing.
- Across Iowa, farm-based businesses rely on the internet for markets, weather and information.
- Small town banks conduct wholesale and retail business transactions via broadband, and need high speed connections to communicate between bank branches, or to allow bank examiners access to records.
- Numerous small businesses require high-speed connections to download large spec sheets, uploading product information, and sales to expand their market anywhere in the world.
- Courthouses require significant broadband speed for downloading county records to data warehouses for disaster recovery.
- Numerous small school districts are requesting broadband pipes of 15 Mbps, 20 Mps and up so they can offer their students comparable curricula to those in urban areas.
- Recent RFPs by Verizon, US Cellular and AT&T seek wireless backhaul capabilities ranging from 10 Mbps to 500 Mbps.
- Growing online education market, including cloud-based e-Learning will continue to add to the requirements of broadband service providers as they continuously expand their networks to meet traffic demand.